PROMOTING TRADE AND INVESTMENT IN CONSTRAINED ENVIRONMENTS:

A.I.D. EXPERIENCE IN LATIN AMERICA AND THE CARIBBEAN

A.I.D. EVALUATION SPECIAL STUDY NO. 69
(Document Order No. PN-AAX-237)

by

The Development Economics Group
of Louis Berger International, Inc.

U. S. Agency for International Development

May 1990

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FOREWORD

Since the 1980s projects promoting free trade zone exports and nontraditional agricultural exports have been at the cutting edge of the Agency for International Development (A.I.D.) private sector programs. In 1989, A.I.D./Center for Development Information and Evaluation and the Bureau for Latin American and the Caribbean initiated a major review of A.I.D.'s experience with trade and investment projects. The large volume of A.I.D. resources committed to trade and investment projects, the critical importance of supporting private sector investment and nontraditional export growth, and the expected increase of funding for export promotion and investment promotion were all factors that prompted this review.

The objective of the review is to evaluate the performance of direct project interventions promoting exports and investments in less-than-ideal policy environments. The initial study, "Promoting Trade and Investment in Constrained Environments: A.I.D.'s Experience in Latin America and the Caribbean," is presented here. It provides a conceptual framework permitting comparative analysis of trade and investment strategies. Based on

secondary sources, the study develops three models of trade and investment strategies and analyzes their performance within a typology of host country economic and institutional environments. The study argues for an approach that targets technical assistance to a limited number of producers, maintaining that such an approach best suits the weak productive structure and volatile policy environments in which A.I.D. typically operates.

A follow-up field study, "Export and Investment Promotion: Sustainability and Effective Service Delivery," is underway. The study will evaluate which trade and investment strategies are effective in stimulating growth in exports, investment, and jobs.

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May 1990

ACKNOWLEDGMENTS

We would like to acknowledge the assistance of many people who participated in the preparation of this report. In particular, we benefited greatly from the insights and experience of Donald Keesing, Yung Whee Rhee, and Therese Belot of the World Bank, who have been involved around the world in research studies on export-promotion strategies and programs. We thank Eduardo Tugenhadt, Robert Bond, and Carlos Torres of CARANA Corporation for taking the time to share with us their invaluable insights into the problems of and opportunities for carrying out trade and investment promotion projects in Central America. In addition Tony Thiel from Chemonics International helped by giving us detailed information on the PROEXAG project, and Dimitri Plionis of Ernst & Young was helpful in providing us with documents about the Market Technology Access project. Finally, we would like to thank Steve Graubart of Ernst & Young for taking the time to review some of our preliminary drafts on trade and investment promotion services.

Special acknowledgment is given to Jim Fox of the Agency for International Development (A.I.D.) Bureau for Latin America and the Caribbean and to Cressida McKean of the A.I.D. Center for Development Information and Evaluation. From the outset, they invested a great deal of time in reviewing our drafts and meeting with us regularly. Together they provided the right combination of constructive criticism and trust in our ability to write a coherent draft report. Cressida McKean in particular was instrumental in getting us documents, setting up interviews, and guiding us through our research and writing stages. We would like also to thank Terry Brown and Kerry Byrnes for sharing their

knowledge of other A.I.D. promotion projects in Central America and the Caribbean.

Finally, although this study represents a group effort of the Development Economics Group, the contributions of the following individuals merit special recognition. Charles Bell was the Team Leader and principal author; Carter Brandon, Harvey Lerner, Tom Davenport, and Barbara Phillips wrote sections of the report, and Mr. Brandon and Mr. Lerner extended senior guidance throughout the study; Ami Greenstein prepared the statistical appendix on A.I.D. projects; and Kimberley Branch typed all the text and produced the graphics.

SUMMARY

Overview

Promoting trade and investment in the constrained environments of developing countries is tricky business. Getting it right requires a convergence of factors, only a few of which an Agency for International Development (A.I.D.) manager can control. Traditionally, industrial estates and trade promotion offices have been the bread and butter of government investment and export promotion programs. These promotional activities can provide the government with a considerable degree of control. Equally important, they provide physical or institutional evidence that a government is doing something.

But doing something about trade and investment promotion is not the same as promoting trade and investment effectively. Too often, trade and investment promotion projects try to provide too many services to too many people without setting clear priorities or responding to market opportunities. Sometimes a project is doomed to failure because of a lack of host government support. Other projects achieve only limited success because they do not learn to compensate strategically for constrained policy and business environments. In still other cases, project designers assume that "excess capacity" in a country translates automatically into "exportable products."

The theme of this report is that successful trade and investment requires mastering the art of promotion. Promotion means designing a market-oriented strategy that is clearly understood by the promoter and the target group. It means establishing realistic targets based on what the market will rather than should buy and doing whatever is needed to generate exports.

This review of 15 A.I.D. trade and investment promotion projects is partly evaluative, partly diagnostic, and partly prognostic. By combining both business and development viewpoints, it seeks to provide A.I.D. managers with a general sense of direction for promoting trade and investment rather than with detailed academic analysis.

Objective and Conceptual Framework of the Study

This report focuses on A.I.D.'s experience with support services for trade and investment in developing countries. It attempts to learn systematically from more than 15 years of A.I.D. project experience, primarily in Latin America and the Caribbean. Since 1974, A.I.D. Missions have disbursed more than $675 million for more than 120 trade and investment projects; two-thirds of these projects were funded by the Latin America and Caribbean Bureau. Given the range and magnitude of A.I.D.'s trade and investment interventions, an important question to answer is, Can A.I.D. trade and investment promotion projects be effective in constrained economic environments?

Although the report emphasizes direct interventions, it does not mean to downplay the importance of policy reform programs in stimulating investment and exports. However, from the viewpoint of this study, policy constraints, as well as a myriad of other productive sector and institutional constraints, are assumed to be beyond the scope of the current set of projects.

This report examines seven critical areas of analysis in 15 sample projects from the Latin America and Caribbean region: (1) the productive structure: the stage of development of a country's trade sector and its potential for increasing exports (especially with the assistance of a project intervention); (2) the policy environment: the basic free-market orientation of the economy in such key areas as trade, foreign exchange, pricing, and fiscal policy regimes; (3) the target group export capability: the size, experience, and ownership (local or foreign) of the targeted firms; (4) the host country support for a project; (5) the project delivery mechanism: the choice of public, mixed, or private sector delivery mechanisms to deliver project services; (6) A.I.D. management effectiveness: the role of A.I.D. management in the project; and (7) risk: the likelihood of accomplishing project objectives within the target timeframe and budget.

These economic and institutional variables provide the framework for the analysis presented in the report. The framework centerpiece is a typology of trade and investment promotion projects, which classifies each of the 15 sample promotion projects according to three generic types:

-- Transmitter approach. The transmitter approach to trade and investment promotion relies mostly on developing and transmitting market information by maintaining databases and answering investor/exporter queries. This approach ranks low in terms of the degree of targeting and proactiveness of project services. Its underlying premise is that trade promotion is constrained by too little information about market opportunities and pricing. Transmitter projects typically provide information to

whomever asks for it and, in this sense, are reactive and responsive to a large number of target groups.

-- Facilitator approach. The facilitator approach seeks to establish multisectoral, general investment and export promotion services such as campaigns to promote products through trade shows and missions, on-site investor services, general training assistance, producer and buyer travel facilitation, and general investor search services. It assumes that investors are constrained by a lack of promotion services. Facilitator projects typically focus on services that assist individual investors at a discrete point in their marketing or production cycle such as trade fairs, training, or general investor searches.

-- Promoter approach. The promoter approach aims to provide enterprise-specific technical assistance and brokering services to a limited number of producers in a limited number of sectors. The promoter approach assumes that major constraints are placed on local producers and investors, and overcoming these constraints requires substantial, but narrowly targeted, technical assistance in marketing, production, or both. The promoter approach is very proactive in identifying concrete business goals and in providing whatever assistance is necessary to achieve them.

All A.I.D. projects fit along a spectrum of these three promotion types. Conclusions are drawn about the success of each approach based on the where, when, and how each approach appears to be most effective in addressing the economic and institutional variables.

Conclusions and Findings

The central question of this report is, Can A.I.D. trade and investment promotion projects be effective in constrained environments?

Our analysis of A.I.D. trade and investment promotion projects indicates that, yes, they can make a difference, particularly in countries with strong underlying trends in export and investment growth and somewhat favorable policy environments. A.I.D. projects can also make a difference in countries with both less favorable policy environments and little export momentum. However, the more unfavorable the economic environment, the greater the need to target the project scope of services, product groups, and client groups.

The promoter approach seems best suited for the weak productive structure and volatile policy environments in which A.I.D. operates. Of all the approaches, the promoter approach is most likely to realize the three factors critical to success, as identified in the more successful projects analyzed:

-- Keeping the project scope relatively simple

-- Demonstrating success early on

-- Providing enough project flexibility to adapt to later changes in strategy and target group selection

The promoter approach advocates a high degree of targeting, which is considered essential to project success in both favorable and unfavorable economic environments. Targeting keeps the scope of a project relatively simple. Targeting helps to establish clear objectives and tightly defined operational guidelines that can be understood by people within and outside the organization. Too often A.I.D. overloads a project with too many objectives, thereby making it difficult to manage. Targeting makes a project more manageable, particularly during the start-up period.

The promoter approach also focuses on demonstrating early success by providing whatever assistance is needed to make exports happen. In trade and investment promotion projects, success builds on success by building institutional confidence, market responsiveness, and concrete gains. Many A.I.D. projects, particularly those that use a facilitator or transmitter approach, focus on project output accomplishments or processes. The promoter approach focuses more on bottom-line impact results (e.g., increases in jobs, investments, and exports). This emphasis supports the following major findings from the comparative analysis of 15 sample projects:

-- Most of the target groups, particularly the small inexperienced groups, require both marketing and production assistance. The promoter approach usually errs on the side of providing too much assistance rather than too little -- which is to be preferred.

-- Host country support, or at least nonhostility, is important for success. Demonstrating success early in a project increases the likelihood of generating host country support for a project.

-- The more successful projects follow low- to moderate-risk strategies. The promoter approach focuses on achieving small successes in targeted areas. It weights the project portfolio toward winners and growth objectives. It does not try to work with too many new target groups, products, and delivery mechanisms at the same time.

The final advantage of the promoter approach is that it can encourage flexibility. Flexibility promotes effective delivery mechanisms and effective A.I.D. management -- two variables found to be crucial for project success. Flexibility includes the ability of project managers to change the objectives, scope of services, and level of funding of a project. Equally important, it requires that A.I.D. managers and implementing institutions

demonstrate a willingness to modify their expectations of project impact. The promoter approach analyzes and monitors the pulse of market forces. As market opportunities change, so too do the objectives, market, and product scope of promoter projects. This market-response emphasis encourages flexibility.

In most of the countries funded by A.I.D. a number of policy and physical constraints exist that discourage local and foreign producers from exporting. These constraints cannot be overcome simultaneously in one project. Rather, a trade and investment project needs to develop a critical mass or package of services that promotes a clearly identified comparative advantage(s) of a country. This is best accomplished with the promoter approach, the most proactive of all the approaches. The promoter approach identifies specific comparative advantages and particular constraints that need to be addressed to achieve demonstrable results with select products and producers.

In the Bureau for Latin America and the Caribbean portfolio of promotion projects, two projects are commonly recognized as particularly successful; one has been used as a model for replication elsewhere. They are the Costa Rican Coalition for Development Initiatives (Coalicion de Iniciativas de Desarrollo), Program for Investment and Export Promotion (CINDE-PIE), and the Support Project for Exporting Non-Traditional Agricultural Products in Central America and Panama (Proyecto Apoyo a la Exportacion de Productos Agricolas No Tradicionales de Central America y Panama [PROEXAG]) in the A.I.D. Regional Office/Central America and Panama (ROCAP). CINDE-PIE has succeeded in a country that has proved to be one of the best export performers in the region by using a well-defined promoter approach to finding investors. This approach is now being used as a model for investment promotion elsewhere in the region. The PROEXAG project has succeeded by challenging the presumed need for a traditional government-sponsored trade promotion office. On the spectrum of promotion project types, it falls midway between the promoter and facilitator approaches and has used very flexible techniques in the different countries (Costa Rica, El Salvador, Guatemala, Honduras) in which it operates.

These projects instill hope for the future of A.I.D. trade and investment interventions. They provide valuable insights into what seems to work well in investment and export promotion projects in manufacturing and agricultural sectors.

GLOSSARY

ADAM - Association of Artisanry and Fashion (Asociacion de Artesania y Moda)

A.I.D.- Agency for International Development

BNZ - National Development Bank, Honduras

CAAP - Private Agricultural and Agro-industrial Council

(Costa Rica)

CBI - Caribbean Basin Initiative

CINDE-PIE - Costa Rican Coalition for Development Initiatives (Coalicion de Iniciativas de Desarrollo) -- Program for Investment and Export Promotion

CONADI- National Investment Corporation

EPZ - Export Processing Zone

FEPROEXAH - Federation of Agricultural and Agro-Industrial Producers

FIDE - Foundation for Entrepreneurial Research and Development (Fundacion para la Investigacion y Desarrollo Empresarial)

HIAMP - High Impact Agricultural Marketing and Production Project (Eastern Caribbean Region)

ICP - Investment Council of Panama

IPC - Investment Promotion Council - Dominican Republic

L - Lempira, Honduran currency ($1=2L)

MTAP - Market Technology Access Project

PDAP - Project Development Assistance Program (Eastern Caribbean Region)

PROEXAG - Support Project for Exporting Non-Traditional Agricultural Products in Central America and Panama(Proyecto Apoyo a la Exportacion de Productos Agricolas No Tradicionales de Central America y Panama)

PROMINEX - Investment and Export Promotion Center (Centre de Promotion des Investissements et des Exportations)

ROCAP - Regional Office/Central America and Panama, A.I.D.

SFC - Standard Fruit Company, Honduras

USAID - A.I.D. Country Mission

1. KEY ISSUES AND ANALYTICAL FRAMEWORK

While assessing Agency for International Development (A.I.D.) trade and investment promotion efforts, we are confronted with immutable facts and nagging dilemmas. Many of

the facts are encouraging, and many of the dilemmas are frustrating. This report is devoted to reconciling the two.

First, the encouraging facts. Nontraditional exports are booming in some parts of the world, particularly in Asia and Latin America. For example, in Caribbean Basin Initiative countries, including Central America and the Caribbean, nontraditional exports have increased by 17.3 percent (in constant dollars) annually since 1983. At this rate, they will double in value in slightly more than 4 years. Both manufacturing and agricultural nontraditional exports increased at approximately the same high rate, which is comparable with and as impressive as export growth rates achieved in the past by the Asian tigers.

Then, the nagging dilemmas. A.I.D. has been involved in trade and investment promotion in many countries worldwide, including both successful and unsuccessful exporting countries. In some countries A.I.D. has chosen between emphasizing agricultural projects and emphasizing industrial projects. In other countries it has chosen between export promotion strategies and investment promotion strategies. In still other countries, A.I.D. has not made these choices and has instead tried to "do it all"-- or at least much of it. And after spending some $680 million on trade and investment promotion projects since 1974 -- of which two-thirds has been in Latin America and the Caribbean -- the number of clearly successful projects remains relatively small.

Concrete answers about what does and does not work for trade and investment promotion projects are elusive, although projects in successful exporting countries seem to work better than those in unsuccessful ones. This invokes the central question addressed in this report: Can A.I.D. trade and investment promotion projects be effective in constrained environments?

This report first answers this question in the affirmative. It then immediately turns to the next question, What are the key determinants of project success in constrained environments? Each project has a different economic and infrastructural setting, different players, and different objectives. However, by breaking down the question into seven critical elements, this report reaches some definite conclusions on key determinants. In addition, it presents practical recommendations for designing and managing future A.I.D. trade and investment projects.

The report arrives at these recommendations by synthesizing critical analyses on two fronts:

-- A typology of trade and investment promotion projects. A sample portfolio of 15 A.I.D. trade and investment promotion projects was organized into a typology of three general approaches followed by most promotion projects: transmitter, facilitator, and promoter projects. All A.I.D. projects fit along a spectrum of these three approaches. The report draws conclusions based on

where, when, and how each approach appears to be most effective.

-- A typology of host country economic and institutional environments, that is, the setting in which all investment-related activities are shaped and bound. The key factors examined in this report include productive structure and policy environment, target group export capability, host country support, delivery mechanism, and A.I.D. management effectiveness. Careful analysis of the linkages between the setting and the project design reveals lessons on how the projects should be tailored to specific policy and institutional environments. The report also identifies issues regarding project strategy and trade-offs between risks and expected returns.

Throughout the report, a distinction is made between the general approach and specific objectives of a trade or investment promotion project. The general approach -- transmitter, facilitator, or promoter -- is broader than its project objectives. Project objectives may have equity versus growth considerations, agriculture versus manufacturing preferences, and foreign versus local investment targets. Each approach is the basis from which a focused set of objectives can be developed and from which a concrete project strategy can be devised.

The intended audience for the report is economists, project managers, and members of organizations involved in trade and investment promotion activities. This section and section 5 present the basic study approach and overall recommendations for future A.I.D. project design. Section 2 provides a retrospective classification of A.I.D. portfolios of trade and investment projects worldwide and in Latin America and the Caribbean, as well as the 15 sample projects used in this analysis. Sections 3 and 4 present the conceptual framework for assessing trade and investment projects and how project success is determined. The appendixes include detailed data used in this analysis.

1.1 Export Trends and A.I.D. Projects

First, the report turns to a simple comparison between the success of nontraditional export performance and the success of A.I.D. export and investment promotion projects in selected Central American and Caribbean countries (see Table 1). The success of export performance is shown by annual percentage growth rates between 1983 and 1988. The success of each A.I.D. project is based on an evaluation scheme developed in Section 3.

The correlation between national export success and A.I.D. project success is high. In all cases, A.I.D. appears to have successful projects in countries with successful export performance. Does this mean that these projects could not have

failed? Are most A.I.D. promotion projects in countries with poor export performance doomed to have low or mixed results? Table 1 brings to the forefront the central question of this report: Can A.I.D. trade and investment promotion projects be effective in constrained environments?

1.2 General Approach of the Study

The approach of the evaluation team was to answer the central question of the study by evaluating the performance of a sample of 15 trade and investment promotion projects from the Latin America and Caribbean Bureau portfolio and by assessing the success or failure of each project and the reasons why. More precisely, the report answers seven key questions about the relationship between each project and its less than ideal economic and institutional environment. These seven questions are as follows:

-- How should project design take into consideration the productive structure?

-- How should project design take into account the policy environment?

-- How should project services take into account the experience, expertise, size, and current export activities of target firms?

-- How should project design and implementation take into account the attitude of the host country government, in particular its support for or interference with the project?

-- What kind of delivery mechanism is most effective for trade and investment projects?

-- How dependent is project implementation on able and flexible management from A.I.D., the funding organization?

-- What is the trade-off between project success and project risk?

These seven questions constitute the framework for the report. Beyond that, they are the framework for the concrete conclusions and strategic considerations offered to A.I.D. for the purpose of designing and managing future projects in constrained economic environments.

1.3 A Typology of General Approaches and Services

Our analysis of how project design should take the host country's economic environment into account starts with

a characterization, or typology, of A.I.D. export and investment promotion projects. The three approaches described below are presented as points along a spectrum, rather than as mutually exclusive models. Any trade and investment project, whether an export or investment promotion project or an agriculture or manufacturing sector project, falls at some point along the spectrum.

-- The transmitter approach relies mostly on developing and transmitting market information by maintaining databases and answering investors' and exporters' queries.

-- The facilitator approach seeks to establish multisectoral and general investment and export promotion services, such as campaigns to promote products through trade shows and missions, on-site nvestment services, general training assistance, producer and buyer travel assistance, and general investor search services.

-- The promoter approach generally aims to provide enterprise-specific technical assistance and brokering services to a limited number of producers in a limited number of sectors.

Each approach can be placed along a spectrum of attributes ranked from low to high. The attributes used to define each approach include (1) degree of project targeting in relation to product development, markets, and beneficiaries; (2) degree of proactiveness associated with project services (i.e., does a delivery mechanism exist that actively seeks out and provides services to a few target groups? Or are project services made available to the general public, albeit through a much more passive, first-come, first-serve approach?); (3) degree of impact attribution -- the extent to which a development impact (e.g., jobs, investment, and foreign exchange generated) can be attributed to a given project service; and (4) degree of confidence in market forces -- the extent to which the approach assumes that markets are efficient and that sufficient numbers of producers exist in the market who are able to take advantage of project services.

Table 2 summarizes the services emphasized by each of the general approaches and ranks them according to the factors mentioned above.

The transmitter approach ranks low in targeting, proactiveness, and impact. Its underlying premise is that a lack of information about market opportunities and pricing constrains trade promotion. Therefore, rather than target specific producers for assistance, transmitter projects develop databases that provide information to numerous sectors and producers/investors. Such projects are passive since they transmit information only on request. The transmitter approach emphasizes the following services: policy development and

research, database development, and market research.

The facilitator approach usually ranks at a medium level for each attribute listed. It assumes that a lack of promotion services constrains potential investors. While a transmitter project would provide a brochure of trade shows to the potential exporter, the facilitator project would help the producer to attend a trade show. Facilitator projects focus on services that assist individual investors at a discrete point in their marketing or production cycle, such as trade fairs, training, or general investor search.

The promoter approach usually ranks high in each attribute. The main emphasis of this approach is on high value-added and enterprise-specific services. The promoter approach assumes that local producers and investors face major constraints that can only be overcome by a varied and concentrated level of services. Overcoming most of these constraints requires substantial, but narrowly targeted, technical assistance in production, marketing, or both. The costs of individual services provided by promoter projects tend to be higher than those of either facilitator or transmitter projects. But the focus on a narrow band of promising opportunities can limit the overall program cost of the promoter projects.

Every investment and export promotion project is composed of a "basket," or a range of services that is typical of the project's general approach. Table 3 shows the services commonly associated with promotion projects. The services are grouped into three categories corresponding with the three general approaches: business environment/market information, export/investment promotion services, and enterprise-specific services.

Table 3. General Approaches and Project Services: A Classification Scheme

Although some overlap occurs between the services offered in each type of project, differences exist often because of targeting and the degree to which a service is designed specifically to meet the needs of all enterprises. For example, while both the facilitator and promoter approaches offer training, the facilitator would typically do so through generic workshops to which several firms would be invited. The promoter approach would work much more closely with one firm, usually to overcome a specific problem that has impeded the firm's ability to expand.

The following sections focus more on the choice of general approach than on the specific services associated with each type of project. It is recognized, however, that a full project strategy also requires careful attention to the actual scope of services to be provided.

1.4 A Typology of Economic and Institutional Environments

All trade- and investment-related activities are shaped and bound by the country-specific setting in which they are implemented. This much is obvious. The purpose of this section is to develop a typology with which this setting can be broken down and analyzed. The typology is used to isolate the many economic, political, and institutional factors that have affected the success of past A.I.D. projects. Just as important, it is an attempt to isolate the key factors that must be taken into account in future project designs in order to achieve success.

Our typology consists of seven variables, which are defined as follows: (1) the productive structure -- the stage of development of a country's trade sector and of that sector's potential for increasing exports (especially with the assistance of a project intervention); (2) the policy environment -- the basic free-market orientation of the economy in such key areas as trade, foreign exchange, pricing, and fiscal policy regimes; (3) the target group export capability -- the size, experience, and ownership (local or foreign) of the targeted firms; (4) the host country support for a project; (5) the project delivery mechanism -- the choice of public, mixed, or private sector delivery mechanisms to deliver project services; (6) A.I.D. management effectiveness -- the role of A.I.D. management in the project; (7) risk -- the likelihood of accomplishing project objectives within the target timeframe and budget.

From the viewpoint of the promotion projects, productive structure and policy environment are considered "uncontrollable." Almost by definition, the productive structure can only change over the medium- and long-terms in conformance with changes in fundamental economic parameters. The policy environment can change much more rapidly -- as it has in Bolivia in recent years -- but typically it changes as a result of a major policy reform dialogue and reform program. This analysis does not focus on policy reform projects. Consequently, for the purposes of this analysis, the policy environment is treated as uncontrollable.

Target group export potential and host country support for the project are considered to be "influenceable." They cover areas in which A.I.D. can exert some influence or control during both the period of project design and the period of project implementation. Although a particular target group may not have an export orientation at the beginning of the project, it is possible that during project implementation the target group can be encouraged to start exporting. The same holds true for host country support. Even if a government does not actively support a project at the outset, it is possible that it will provide more support during project implementation, particularly if the project demonstrates some success.

The fifth and sixth variables examine the importance of the delivery mechanism and of A.I.D.'s management role in project implementation. Both are considered "controllable" by USAID

Missions. In most projects A.I.D. is the primary funder and therefore has some leverage over the delivery mechanism. A.I.D. also has direct control over its own project management. The last variable, project risk, is a function of project design and is thus highly controllable from the viewpoints of A.I.D. and the project management.

1.5 Methodology

For each of the 15 sample projects included in this analysis, the evaluation team carefully analyzed the set of seven variables. Proxy indicators were defined for each variable and ranked on a scale of low/medium/high. The evaluation team analyzed each variable, as well as the relationships between variables, to determine which variables are important to project success. The statistical method used to correlate the seven variables with project success is the Spearman's rank correlation coefficient.

The major findings from the review of the above variables are presented in the following sections. Appendix A presents the actual indicators and data used to evaluate all of the variables. Appendix B provides detailed data on A.I.D. trade and investment projects worldwide. Appendix C presents data and graphs used to assess project success. Finally, A.I.D. Working Paper No. 134, available from the A.I.D. Library, contains a summary description of the 15 sample projects and additional data used in this review.

2. A.I.D. PORTFOLIO OF TRADE AND INVESTMENT PROMOTION PROJECTS

A review of the A.I.D. portfolio of trade and investment promotion projects makes one point clear -- there are many different ways to slice the "trade and investment" apple.

To some, trade and investment may be equated with policy reform and sectoral assistance. To others, the major constraint to increased trade may be a lack of credit. The business economist may point out the need to increase the business acumen and management skills of firms through technical assistance and training programs. Others may emphasize the development of better infrastructure as the best road to follow toward improved trade and investment.

Experience demonstrates that all the interventions discussed above can be useful for promoting trade and investment. For the purposes of this study, however, the trade and investment universe of sample projects has been narrowly defined to include only institutional services that directly support increased trade activity. Typical services include technical assistance, information collection and dissemination, and export and

investment promotion services. This study excludes projects focusing on policy and sectoral reform since they are considered more indirect and noninstitutional in nature. Also, financial sector reform projects and projects focusing exclusively on credit are excluded.

The following sections proceed from a general overview of A.I.D.'s trade and investment portfolio to the presentation of the 15 sample projects used in the analytical sections of this report.

2.1 A.I.D. Worldwide and Latin America and Caribbean Project Portfolios

Since 1974, A.I.D. has disbursed more than $675 million for more than 120 trade and investment projects worldwide. The most highly targeted areas of investment have been in the Latin American and the Caribbean region, where slightly more than 50 percent of projects in the portfolio are located. In terms of funding, however, the Bureau for Latin America and the Caribbean accounts for about 70 percent of total disbursements. Nearly two-thirds of the projects were initiated between 1982 and 1986 -- the period following the debt crisis and the initiation of A.I.D's Private Sector Initiative Program.

The compositions of the A.I.D. worldwide and the Latin American and Caribbean portfolios are quite similar. (For a detailed presentation of the portfolio, see Appendix B.) The portfolio is weighted toward grant financing of export promotion activities in the agricultural sector. Project funding is generally heavily dependent on A.I.D. financing. About two out of three projects are financed by grants; more than half of the Latin America and Caribbean projects have received more than $10 million in A.I.D. funding. More than 75 percent of the projects provide export promotion services in the agricultural sector.

In terms of project services, both portfolios are evenly divided among seven general service categories -- export promotion services, investment promotion services, policy reform, institutional development, training, technical assistance, and credit. Total A.I.D. activity in areas like policy reform and credit may be underestimated since development finance and sectoral reform projects were not included in this trade and investment project listing. The institutions used to provide these services tend to be existing, nonprofit (private) institutions. In the Latin America and Caribbean portfolio, 75 percent of the implementing institutions existed before the project began.

The A.I.D. portfolio reflects the historic orientation of both A.I.D. and the host country environments. Grant financing responds to host country government's reluctance to increase debt service levels. It also gives A.I.D. the flexibility to experiment with different project strategies. Export promotion in the agricultural sector is probably rooted in both A.I.D.'s and a

host country's desire to assist local producers, particularly small farmer groups, instead of foreign investors. Finally, the financing of private, nongovernment implementing agencies promotes the U.S. Government's political goals of minimizing public sector intervention in developing country economies.

2.2 Profile of 15 Sample Projects

To proceed with the analysis outlined in Section 1, a sample list of 15 export and investment promotion projects from the Bureau for Latin America and the Caribbean was selected. The criteria used for compiling the list includes representativeness with respect to (1) type of promotion, that is, export or investment promotion; (2) sectoral emphasis, that is, agriculture or manufacturing emphasis; (3) regional diversity; and (4) overall project approach in terms of strategy and services provided. Most of the projects have complete documentation (Project Paper and evaluation) and were completed before 1989. In addition, the team members have had some direct evaluation experience on three of the sample projects: Eastern Caribbean High Impact Agricultural Marketing and Production Project (HIAMP), Eastern Caribbean Project Development Assistance Program (PDAP), and Costa Rica CINDE-PIE.

The sample project list is shown in Table 4.

The sample project list includes 10 countries and two regions. The list is evenly divided between favorable country environments and unfavorable environments. At the top of the list are countries and region that have demonstrated some success in establishing relatively free floating exchange rates (e.g., Costa Rica and the Eastern Caribbean). At the bottom of the list are countries that have been plagued by overvalued exchange rates (most notably Honduras).

2.3 Grouping of Sample Projects by General Approach and Project Services

This section places each of the sample projects along the spectrum of general approaches described in Section 1.3. As shown in Table 5, most of the projects fall somewhere around the facilitator approach, implying that most projects include some general export and investment promotion services. Only a few projects wholeheartedly adopt the promoter approach -- an approach that emphasizes proactive, enterprise-specific services.

Table 5. Sample Projects by General Approach

NOTE:Dates shown are that of project startup.

ADAM is Association of Artisanry and Fashion; CINDE-PIE

is Costa Rican Coalition for Development Initiatives--Program for Investment and Export Promotion; FEPROEXAH is Federation of Agricultural and Agro-Industrial Producers; FIDE is Foundation for Entrepreneurial Research and Development; HIAMP is High Impact Agricultural Marketing and Production Project; ICP is Investment Council of Panama; IPC is Investment Promotion Council-Dominican Republic; PDAP is Project Development Assistance Program; PROEXAG is Support Project for Exporting Non-Traditional Agricultural Products in Central America and Panama; PROMINEX is Investment and Export Promotion Center.

As discussed in Section 1.3, there is a correlation between project approach and project services. Transmitter projects generally emphasize the financing of studies and information development services. A transmitter project, the Panama/Investment Council of Panama project, spent much time (almost 2 years) carrying out studies and deciding on which sectors to target for investment services. Similarly, the Non-Traditional Agriculture Export project in Ecuador committed more than 60 percent of its funds to the development of a computerized information system (market, technical, and financial information) and feasibility and preinvestment studies on specific products. These projects, along with other transmitter projects, assume that a lack of information is the biggest constraint to development.

At the other end of the spectrum from the transmitter approach is the promoter approach. Typically, these projects are characterized as "development" projects because they provide a wide range of targeted services to a few target groups. Promoter projects emphasize enterprise-specific services, ranging from firm-level technical assistance (postharvest, marketing, management, and so on) to deal making with foreign interests. In both the PROEXAG and HIAMP projects -- two projects with a heavy promoter emphasis -- consultants concentrated on deal making between foreign buyers and local producers. The Costa Rica/ CINDE-PIE project is an example of a promoter project that did investment promotion. Unlike other nonpromoter investment promotion projects in Haiti and the Dominican Republic, this project emphasized "cold calling" of targeted firms from overseas offices. Also, unlike the previously mentioned transmitter project in Panama, the CINDE-PIE project placed more emphasis on learning-by-doing. Quick strategic targeting studies were initially carried out, but all subsequent targeting decisions came from the monitoring of investor contacts made in the overseas offices.

In between the transmitter and the promoter approaches is the facilitator approach. This approach tends to emphasize a moderate amount of targeting. The guiding principle in facilitator projects is to serve as a facilitator of services -- either to a target group (thus leaning toward the promoter emphasis) or to any firm that is in need. Typical services provided by projects using this approach are product promotion campaigns; general investor search services through direct mailings, advertising, and trade shows; producer and buyer travel facilitation; on-site investor services; and general training assistance. This approach generally assumes that the market players will seek

assistance. Whereas the promoter approach first identifies the players to be assisted and then provides services, the facilitator approach concentrates more on developing a service capability that can be offered to a wide range of interested (but nontargeted) groups.

The best example of the facilitator approach in investment promotion is the Dominican Republic/IPC project. This project differs from the Costa Rica/CINDE-PIE project in that it does not establish overseas offices with marketers who aggressively call up firms. Rather, it relies on in-country services, waiting for firms to request information and on-site services. Examples of export promotion projects that use the facilitator approach are the Federation of Agricultural and Agro-Industrial Producers (FEPROEXAH) and PROEXAG projects, which established advisory services, housed in national institutions and made available to a wide range of small producer groups.

The correlation between approach and services is not rigidly set. Most of the projects include a mixed bag of services associated with each of the different approaches. For example, the CINDE-PIE project did not ignore important transmitter and facilitator functions. Databases on potential investors were created, and very efficient on-site investor services (site visits, paperwork clearance, follow-up investment services) were established. Similarly, the PROEXAG project, which actively seeks out deals (thereby making it a promoter), also serves as a facilitator of services through national institutions.

Each of the sample projects has a variety of services that are easily identifiable. What differentiates the projects are the priorities attached to the services. More difficult to determine is the efficiency and effectiveness of these project services.

3. DETERMINING PROJECT SUCCESS

This section covers two related topics: (1) measuring the impact and, by implication, the success of trade and investment promotion projects, and (2) measuring the cost-effectiveness of different project approaches. Only after the overall impact and success rating of a project is assessed can the determinants of that success be analyzed (see Section 4).

Table 6 is a summary table that ranks the sample projects by level of success and presents the ratings for the determinants of success (economic and institutional variables). This study classifies the sample projects into three groups:

-- Success. Successful projects seem to have reached some significant level of impact, have achieved more than 75 percent of the targeted outputs, have demonstrated relatively high government support and demand for services,

and have had generally favorable reviews in the evaluations.

-- Mixed Results. Projects with mixed results seem to have reached between 25 percent and 75 percent of output indicators, have demonstrated some impact, and have received moderate government support and qualified support in the evaluation.

-- Low or No Results. Projects with low or no results failed to reach 25 percent of impact or output indicators, demonstrated medium- to low-government support for the project, and received highly critical evaluations.

The definition of success used for this study incorporates both quantitative (impact and output indicators) and qualitative (government support and evaluation assessments) data (see Table C-1, Appendix C). The success criteria provide some insight about (1) the overall demand for project services based on the percentage of output indicators completed (e.g., number of trade missions, number of trainees), (2) the bottom-line impact of the project (e.g., jobs, investment, and exports generated), and (3) the overall relevance of a project based on host country support and evaluation findings.

Of all the success indicators, impact indicators are most often scrutinized and publicized. Impact indicators shed some light on the question: Did A.I.D. investments generate significant returns in terms of employment, investment, and foreign exchange?

In response to this question, the evaluation team's analysis indicates a strong yes for the successful projects. The four projects classified as success projects -- CINDE-PIE in Costa Rica, IPC in the Dominican Republic, PROEXAG in Central America, and Technical Consultations and Training in Jamaica -- all had significant impact. Most impressive is CINDE-PIE, an investment promotion project that during a 4-year period produced 21,800 jobs, $154 million in exports, and $143 million in investments. The PROEXAG project also produced impressive results, having generated $11 million in exports during the past 3 years.

Table 6. Summary Table of Sample Projects

A.SUCCESS

PROJECT DESIGN

KEY VARIABLES

UNCONTROLLABLE INFLUENCEABLE CONTROLLABLE

PROJECT/APPROACH

LEVEL OF RISK	LEVEL OF PRODUCTIVE MECHANISM	POLICY ENVIRON-MENT	POLICY ENVIRON-MENT	TARGET GRP. EXPORT POTENTIAL	HOST CNTRY CAPABILITY	DELIV. MECHAN. SUPPORT	EFFECT. OF USAID MISSION MGMT.
TYPE OF PROMOTION/SECTOR							
Costa Rica/CINDE-PIE Promoter Industry	IP/	2	3	2.5	2	3	2.5	2.5
Central America/Facilitator PROEXAG	EP/	2	2	2	3	2	3	3
Promotor	Agriculture							
Dominican Republic/Facilitator IPC	IP/	3	2.5	2	2.5	3	3	3
Industry								
Jamaica/Tech. & Transmitter Training	IP & EP/	3	2.5	2.5	2	2	2.5	2
Facilitator	Industry							
Average:		2.5	2.5	2.3	2.4	2.5	2.8	2.6

Scale: 1 = Unfavorable/high risk
2 = Indifferent/medium risk
3 = Favorable/low risk

EP = Export promotion
IP = Investment promotion

Table 6. Summary Table of Sample Projects (cont.)

B.MIXED RESULTS

PROJECT DESIGN

KEY VARIABLES

	UNCONTROLLABLE			INFLUENCEABLE			CONTROLLABLE
PROJECT APPROACH	LEVEL OF RISK	LEVEL OF PRODUCTIVE STRUCTURE	POLICY ENVIR.	POLICY ENVIR. CAPABILITY	TARGET GRP. EXPORT POTENTIAL	HOST CNTRY SUPPORT	DELIV. MECH. MISSION MGMT.	EFFECT. OF USAID
TYPE OF PROMOTION/ SECTOR								
Bolivia/ADAMPromoter EP/ Handicrafts	2.5	1.5	1	2	2	1	3	
E. Carib./PDAPFacilitator/IP/ Promoter Agriculture	1	1	2.5	2	1.5	2	2	
E. Carib./HIAMPPromoterEP and IP/ Agriculture	1	1	2.5	2	2	2	2	
El Salvador/Facilitator/EP/ Water Mgmt. Promoter Agriculture	2	2	1	1.5	2	2	2	
Guatemala/ Transmitter/EP/ AgribusinessaFacilitatorAgriculture	3	1.5	2	1.5	2.5	1.5	1.5	
Haiti/PROMINEXFacilitatorIP/ Industry	2	1	1	1.5	1	2	2.5	
Honduras/Agro-Facilitator/EP/ Industrial Promoter Agriculture	2.5	1.5	1.5	1	1	2	2.5	
Honduras/FIDEbFacilitatorEP/ Industry	2.5	1.5	1.5	2	2	2	2	
Honduras/FEPROEXAHbFacilitatorEP/ Agriculture	1	1.5	1.5	1	1.5	1.5	1.5	
Average:	1.9	1.4	1.6	1.6	1.7	1.8	2.1	

a Based on mid-term evaluations

b FIDE and FEPROEXAH are subprojects of the "umbrella" Export Promotion Services Project. In this evaluation, and in those carried out in the past, these subprojects have been cited and

evaluated as a separate project.

Scale: 1 = Unfavorable/high risk
2 = Indifferent/medium risk
3 = Favorable/low risk

EP = Export promotion
IP = Investment promotion

Table 6. Summary Table of Sample Projects
(cont.)

C. LOW RESULTS

PROJECT DESIGN
KEY VARIABLES

UNCONTROLLABLE INFLUENCEABLE CONTROLLABLE

PROJECT APPROACH
LEVEL LEVEL OF TARGET GRP. HOST DELIV. EFFECT.
OF RISK PRODUCTIVE POLICY POLICY EXPORT CNTRY MECHAN. OF USAID
STRUCTURE ENVIRON ENVIRON POTENTIAL SUPPORT MISSION
CAPABILITY SUPPORT
TYPE OF PROMOTION/SECTOR

Ecuador/Non-Trad.Transmitter/EP/
2 2 2 1.5 2 2 1
Agriculture Facilitator Agriculture

Jamaica/Agro-Industry Transmitter/IP & EP/
2 2.5 2.5 1 1 1 2.5
Facilitator Agriculture

Panama/ICP Transmitter IP/
2 2.5 3 2 1 1 1
Industry

Average: 2.0 2.3 2.5 1.8 1.3 1.3 1.2

Source: A.I.D. Project Documents

Scale: 1 = Unfavorable/high risk
2 = Indifferent/medium risk
3 = Favorable/low risk

EP = Export promotion
IP = Investment promotion

Note: ADAM is Association of Artisanry and Fashion;
CINDE-PIE is Costa Rican Coalition for Development

Initiatives--Program for Investment and Export Promotion; FEPROEXAH is Federation of Agricultural and Agro-Industrial Producers; FIDE is Foundation for Entrepreneurial Research and Development; HIAMP is High Impact Agricultural Marketing and Production Project; IPC is Investment Promotion Council; PROEXAG is Support Project for Exporting Non-Traditional Agricultural Products in Central America and Panama.

The less successful projects had much less impact. The "mixed results" projects (eight projects) generated a maximum of 3,000 jobs, and the level of exports and investment generated was less than $3 million and $10 million respectively. For the three "low or no results" projects, the maximum level of impact achieved was 1,730 jobs generated, $6 million in exports, and $7 million in investments.

The successful projects were also the most cost-effective in terms of program cost per impact indicator (jobs, investment, and exports generated). Three out of the four success projects -- PROEXAG, CINDE-PIE, and IPC -- have the highest impact indicator per program dollar expended (or lowest for the majority of the projects in the case of cost per job generated) of the sample project list. Both investment promotion projects, CINDE-PIE and IPC, had costs per job generated of between $75 and $650. This compares very favorably with the range of $1,772 to $47,176 for the other projects -- the mixed success and low success categories. The Jamaica Technical Consultations & Training project ranked in the middle of the pack in cost per job generated and export generation. But it was among the highest in investments generated per program dollar expended. (See Table C-2, Appendix C for cost-effectiveness ratios.)

A bit of caution is advised when using these results for cross-project comparisons. The fact that successful projects are the most cost-effective does not prove that less successful projects are definitely not cost-effective. For example, investment promotion projects can generally demonstrate faster impact than can export promotion projects, which have a longer term structural impact. Under these circumstances, it is possible that a low ratio in an export-oriented agricultural project may gestate into a higher ratio later on, once new production techniques and other technical assistances take root. Also, there is no verification of the quality of the jobs generated. Should evaluators consider jobs or exports generated in labor intensive and mobile (i.e., the investor can move to another country on short notice) "cut and sew" industries to be as valuable as jobs created in the agriculture sector?

A final problem concerns attribution. It is often difficult to determine how much credit a project should be given for generating impact. Typically, the beneficiaries of project services fall into three categories: (1) those who found the services to be essential or very important to success, (2) those who found the services to be useful, and (3) those who were indifferent

or critical about the services. First-hand experience with three of the sample projects shows that 50 percent to 75 percent of the beneficiaries typically find project services to be "essential" or "very useful."

This distribution curve indicates that no project can take 100 percent credit for all the jobs, investments, and exports generated by the companies with which they work. It also makes clear the importance of developing an effective monitoring system. With only a few exceptions, most of the sample projects lacked an effective monitoring system -- one that tracks clearly defined indicators. Any final assessment of a project's success needs to carefully review project benefits, based on clearly defined and quantified indicators, on a "with project" and "with-out project" basis.

Despite these qualifications, the results from the sample project list point out that A.I.D., at least in a few cases, has financed some very good projects. As shown in Section 4, the determinants of a successful project depend on the convergence of several factors -- some of which are directly controllable by A.I.D. and others that can be only partly influenced or indirectly affected.

4. DETERMINANTS OF PROJECT SUCCESS: THE ECONOMIC AND INSTITUTIONAL SETTING OF TRADE AND INVESTMENT PROMOTION PROJECTS

This section discusses the common determinants of project success in constrained environments, and it explains why some trade and investment projects are more successful than others.

Based on the methodology introduced in Sections 1.4 and 1.5, the broadest conclusion of this study is that the more successful projects are effective at targeting and adjusting project services to the strengths and weaknesses of the economic environment, target group, and host country governments. This conclusion is clearly captured in three short case studies taken from the sample project list and presented in Section 4.1. The rest of Section 4 presents the study's major conclusions based on the seven criteria used to characterize the project setting. Matrixes that depict the correlation between these criteria and project success are presented in Appendix C.

4.1 Case Studies

The three case studies are Costa Rica/CINDE-PIE, Dominican Republic/IPC, and Honduras/FEPROEXAH and FIDE.{1} These projects represent a range of economic environments, project services, and results. While Costa Rica has a highly favorable environment relative to other countries in the region, the Dominican Republic

and Honduras, on average, do not. The projects in Costa Rica and the Dominican Republic focus on investment promotion; those in Honduras (FIDE and FEPROEXAH) focus on export promotion. Finally, two of the three cases -- CINDE-PIE and IPC -- are considered "success stories." By focusing on successes, greater insight is provided into the common key factors that account for project success.

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(1) FEPROEXAH and FIDE (Foundation for Entrepreneurial Research and Development) are part of the "umbrella" Export Promotion Services project. In this evaluation, as well as in others done in the past, these subprojects have been cited and evaluated as separate projects.

4.1.1 Costa Rica: The CINDE-PIE Project

The CINDE-PIE project demonstrates the effectiveness of developing a targeted investment package. From the third year of the project, CINDE-PIE managers effectively reformulated their strategy to better match project promotional efforts with the competitive advantages resulting from changes in the policy and productive structure environment.

During the first 2 years of implementation, the original CINDE-PIE project focused on a facilitator strategy. The project spread its resources among a variety of activities: export promotion, investment promotion, general lobbying, and general studies. The strategy appeared viable, particularly since Costa Rica seemed to have one of the more favorable policy and productive structure environments in the region. There seemed to be plenty of opportunities for both export and investment promotion.

However, the original project strategy did not work because it did not properly match project resources to the specific competitive advantages of the Costa Rican economy. In world markets, the Costa Rican economy is relatively weak. Consequently, resources spent on export promotion were insufficient given the relative weakness of the local productive structure. Resources allocated to investment promotion were meager and based incorrectly on the assumption that foreign investors already knew about Costa Rica.

By mid-1985, the project switched to an aggressive promoter strategy. CINDE-PIE only focused on investment promotion, with some supporting work in lobbying for investment incentive packages. Five overseas offices were established to "cold call" potential investors and actively stimulate interest in Costa Rica. The project promoted three types of investment: industrial parks (export processing zones [EPZs]), temporary admissions (drawback incentives), and export contracts. (Export contracts are contracts given to foreign investors, providing an incentive package similar to those available to investors in EPZs but which can be applied to export production located anywhere in the country.)

The export contracts and temporary admissions have been particularly successful, accounting for nearly two-thirds of all the investments in the country.

The combination of targeted investment promotion services with some lobbying services has proved to be a resounding success. More than 20,000 jobs and $100 million in new investment have been generated during the past 3 years. CINDE-PIE's three-pronged investment promotion strategy -- focusing on export contracts, industrial parks, and temporary admissions -- has effectively capitalized on opportunities presented by changing environmental conditions. In 1985, at the time of its reorganization,CINDE-PIE took advantage of the export contract laws that the Costa Rican Government had passed in 1983-1984 and that the lobbying arm of CINDE-PIE had promoted. By 1986 CINDE-PIE had identified a shortage of industrial park space as the biggest constraint to future investment. It pushed for government support for the development of privately owned EPZs. From 1986 to 1988 the number of privately owned EPZs increased from one to four. This growth has been important in maintaining investor interest in the country.

The CINDE-PIE project highlighted those policy and productive structure elements in which it clearly enjoyed a comparative advantage. But the project never tried to over promote or over estimate its advantages. On the policy side, CINDE-PIE promoted investment laws that were competitive in world markets. Concerning the productive structure, the CINDE-PIE group talked about the high levels of management capability, general high productivity and education levels of the work force, and the modern transportation system. But it did not prematurely try to link foreign investors with local producers who lacked the production experience to meet international standards.

4.1.2 Dominican Republic: The IPC Project

The Investment Promotion Council (IPC) project in the Dominican Republic has been successful at promoting past successes. The motto of the IPC project could very well be "Let's keep a good thing going."

Since the late 1960s the Government of the Dominican Republic has actively promoted EPZ investments. During the late 1960s it was apparent to policymakers that the promotion of EPZs provided the easiest vehicle for investment promotion. Between 1969, when the first EPZ was built, and 1985, a total of nine EPZs were built, representing nearly $205 million in exports.

The IPC project was implemented in the midst of rapid EPZ development. Because of the strong demand and high investor awareness of the Dominican Republic, the IPC project was able to adopt a facilitator approach. Rather than establish overseas offices and aggressively sell the Dominican Republic to foreign investors, as was done in Costa Rica, the IPC opted to establish

a highly effective on-site service center in the Dominican Republic that promoted investments in EPZs.

Similar to the CINDE-PIE project, the IPC project followed a flexible and targeted strategy. The original IPC strategy focused on investment promotion, general export promotion, and policy reform issues. After the first year, however, it became apparent that the IPC would be most effective in focusing almost exclusively on investment promotion activities in a few sectors (footwear and electronics, in particular).

The IPC project was also effective in matching a tightly defined project-service investment package to the comparative advantages of the Dominican Republic policy environment. Despite a volatile policy environment -- an overvalued peso and limited access to foreign exchange among the more serious constraints -- government promotion of privately developed EPZs gave the IPC a base from which to promote foreign investment. The IPC project also promoted low-cost labor and the benefits of the 806/807 {2} code enacted by the United States for Caribbean countries.

The major lesson learned from the IPC project is that a facilitator approach for investment promotion -- one that does not use overseas offices -- is sufficient when there is already significant information about demand and knowledge of a country. In cases where demand is unknown and knowledge is limited, as in the case of Costa Rica, it is necessary to adopt a more proactive, promoter approach complete with overseas offices. Similarly, a facilitator approach would probably not be appropriate for an export promotion project in the Dominican Republic, where the export base remains relatively small outside the EPZ sector.

4.1.3 Honduras: FIDE and FEPROEXAH Projects

The Foundation for Entrepreneurial Research and Development (FIDE) and the Federation of Agricultural and Agro-Industrial Producers (FEPROEXAH) projects in Honduras are considered mixed results projects. In sharp contrast to the other two case studies, these projects demonstrate the danger of trying to achieve too much, too soon, with too many services, and few priorities in an unstable environment.

The FIDE and FEPROEXAH projects, using a facilitator approach, attempted to assist exporters in increasing their exports. FIDE focused on selling domestic products through trade shows and contacts with foreign buyers. In addition to providing broad facilitator information and services to interested firms, FIDE was intended to assist in the development of two EPZs. But efforts in this area lagged behind the export-promotion efforts. FEPROEXAH focused on agricultural exports and tried to provide a broad range of services, none of which it did very well. The project had 27 member agricultural associations, and a diverse board that was consistently unable to agree on a precise strategy. The organization suffered from weak management, overly

broad objectives, and unclear criteria in many of its service, credit, information, and marketing functions.

Unlike the project in Costa Rica, neither FIDE nor FEPROEXAH devised a strategy that allowed it to cope with the many productive-sector and policy constraints that exporters faced. Both organizations wanted to address many problems, ranging from poor market information to lack of credit and high transport costs to inadequate production techniques. Both organizations split energies between providing services to clients and undertaking their own projects. In comparison, CINDE-PIE, despite having a more favorable export environment, started out narrowly and committed itself to achieving concrete successes. The efforts of FIDE and FEPROEXAH, having no operable, flexible, or market-oriented strategy, were mostly dissipated.

In the past 2 years, both FIDE and FEPROEXAH have improved by adopting more of the promoter approach established in CINDE-PIE. There is now an open acknowledgment that the projects cannot address, much less overcome, all the negative factors in the economy at large. FIDE is now focusing on promoting foreign investment in EPZs. FEPROEXAH has concentrated its assistance more on a targeted group of producers with the highest export potential, rather than on its member producer associations, many of whom do not possess much export capability. In the past year, FIDE has surpassed its annual job generation targets (more than 1,000 jobs) and FEPROEXAH has met its export targets of $6 million in 1 year.

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(2) Refers to tariff code, which facilitates the establishment of "drawback" industries outside the U.S. Such industries import U.S. manufactured materials (primarily from the metal and clothing sectors), process them, and reexport the finished products back to the U.S. The only duty assessed on the final product is on the value-added created during the processing stage outside the U.S.

4.2 Uncontrollable Factors: Productive Structure and Policy Environment

This study supports the argument that favorable policies play an important role in the success of a trade and investment promotion project. Clearly the EPZ legislation in the Dominican Republic and the export contract legislation in Costa Rica were instrumental to the success of the IPC and CINDE-PIE projects. But favorable policies in and by themselves do not guarantee project success. The link between policies and projects is not formulaic. An unfavorable policy environment does not prevent a project from achieving success. Conversely, a favorable policy environment does not necessarily guarantee project success, particularly if favorable support from the other variables is lacking.

Evidence from the three case studies and the comparative analysis of the 15 sample projects indicates that projects can register success, regardless of the general environment. What is crucial to success, however, is the identification of a comparative advantage. To take advantage of a comparative advantage, there is always a need to target. This is true for both favorable and unfavorable environments.

The lessons learned from the CINDE-PIE, IPC, FIDE, and FEPROEXAH projects are that, as the policy and productive-structure environments become more unstable, the number of options and types of packages offered must narrow. In Costa Rica, where the Government has demonstrated a willingness to attract investors into the country at large and to adopt free-market policies, the investment promotion strategy can include the promotion of investment both within and outside industrial parks through the use of export contracts. In the Dominican Republic, where the general policy environment is more unfavorable, the investment promotion strategy is almost completely dependent on the promotion of EPZs. Finally, in Honduras, where the environment is relatively unfavorable, it is evident that the original emphasis on a facilitator approach and the implementation of numerous trade and investment services was unsuccessful. Much more successful has been careful targeting of foreign investments in EPZs (FIDE) and of higher return nontraditional agricultural export firms (FEPROEXAH).

In export promotion projects, primarily those in the agricultural sector, project services need to develop around a tightly defined package. The original FEPROEXAH project failed by trying to provide marketing and production assistance to 27 member associations. This was too much for a weak institution to handle. Under a revamped strategy, the project now focuses its efforts on producers that have the greatest export potential. In the PROEXAG project -- considered to be one of the more successful projects -- the project team has carefully matched its services and scope of product groups to the level of productive capacity in a country. The PROEXAG team limits the range of produce it will promote from as few as 4 crops in the more unfavorable environments to 14 crops in the more favorable economic environments.

Of the three general approaches presented in Section 1 -- promoter, facilitator, and transmitter -- the promoter is the best for targeting. This approach is the most flexible and focused in developing a package of services that responds to specific market opportunities. It promotes a single comparative advantage -- whether a single producer or export processing zone -- and follows through with the services necessary to generate impact. The promoter approach imposes a certain amount of discipline, which prevents a project from trying to "be all things to all people." Finally, the promoter approach seeks early on to achieve some success -- regardless how small. Early results tend to make it easier for donors to attract host country project support -- support that is essential to a project's success, as discussed in the next section.

4.3 Influenceable Factors: Host Country Support and Target Group Export Capability

Evidence from the case studies and the comparative analysis of 15 sample projects suggests that host country support, or at least nonhostility, is needed for project success. In both the CINDE-PIE and IPC projects, the host country demonstrated significant support for the project. Most significant was the legislation passed by each government that allowed for the development of EPZs and investment through export contracts. Other measures of support included (1) meeting the funding targets established in the Project Paper, (2) providing the human resources and expertise requested, (3) facilitating coordination of activities with other government agencies involved in the promotion business, and (4) acknowledging that the organization had a mandate from the top levels of government to carry out promotion activities.

The less successful projects generally had low host country support. These projects suffered from a lack of funding or proper staffing. For example, the Investment Council of Panama project became a political employment house. Initially, the project had a lean staff of capable people recruited from the private sector. After 1 year, however, the executive director was replaced by a political appointee. Soon, staffing increased with appointments made by the Panamanian Government. After 2 years, the overall focus and quality of the organization was seriously undermined.

Besides host country support, the more successful projects benefited from knowing what kind of technical assistance to provide to target groups and how to do so. For small firms with limited experience, successful projects provided foreign expertise in both production and marketing. In fact, linking inexperienced producers with foreign buyers proved most effective. Larger firms familiar with export procedures and quality control issues may need little assistance in production but significant assistance in marketing. In the successful PROEXAG project, small farmers in Guatemala and El Salvador received technical assistance from Chiquita Company in producing and marketing melons. However, in the case of larger farmers, Chiquita provided only marketing assistance. The degree of intervention from the Chiquita Company seemed appropriate for both target groups.

Experience from the PROEXAG project highlights the benefits of linking foreign buyers with local producers. In the absence of any foreign buyers like the Chiquita Company, it is possible to establish as surrogate buyers private contractors and local institutions.{3} Unfortunately, the difficulties of establishing a surrogate buyer, especially in a new or inexperienced project delivery mechanism, are many (see Section 4.4 below). For example, the Association of Artisanry and Fashion (ADAM) project in Bolivia attempted to provide small knitter associations both production and marketing assistance. ADAM, however, suffered

from numerous management problems. It took several years before the new organization received sufficient technical assistance to become a viable entity.

A project needs to know when it can serve as a surrogate buyer and when it should seek outside expertise. Experience from the FEPROEXAH project suggests that there is a temptation for local delivery mechanisms to become a one-stop service center. Such a name implies that the project delivery mechanism can work with any local producer in any crop. The reality is, however, that such comprehensive in-house services are difficult to develop -- particularly in export promotion projects. Early on, a delivery mechanism needs to target and to recognize its limitations. PROEXAG targeted the type of crops for which it would provide technical assistance on the basis of the expertise of its staff. CINDE-PIE targeted on the basis of what a country offers an investor. As discussed below, the more effective delivery mechanisms strike a balance between staff skills, comparative advantages of the country, and strengths of the target groups being assisted.

4.4 Controllable Factors: Delivery Mechanism and A.I.D. Management

The effectiveness of the delivery mechanism used for providing project services is crucial to a project's success. Less crucial, but still significant, is the effectiveness of A.I.D. management. Both factors support the adage: Good people make good projects.

All of the "success" projects had very flexible, capable organizations. The distinguishing features of these delivery mechanisms were (1) extremely capable and motivated local and foreign contractor staff, (2) clearly targeted and defined objectives, (3) cooperation from other in-country agencies and institutions involved in export or investment promotion and, (4) appropriate phasing and level of funding. The weaker projects generally had significant problems in two or more of these areas.

Most important to a project is the quality of the staff. The "success" projects had staff, whether foreign or local, who were among the best professionals in their fields. The example of CINDE-PIE shows that local staff appear best suited for overseas investment promotion office functions and in-country export and investment promotion services. They are more cost-effective than foreign consultants, and they help establish credibility with overseas foreign investors regarding the seriousness of the developing country's commitment. Foreign consultants are better suited for strategic planning services, deal making, and technical assistance to firms. The PROEXAG project's success with deal making points out the significant benefits of employing foreign staff who have extensive worldwide experience and contacts. Finally, all of the "success" projects have an executive director or chief of party, foreign or local, who is a strong manager and who works well with USAID Missions.

The second most important element of project success is well-targeted and clearly defined objectives. All the "success" projects had developed objectives that were understood and accepted by the people within the organization and by other agencies working in related fields. In both the CINDE-PIE and IPC projects, the delivery mechanisms clearly defined the role of the organization vis-…-vis other government promotion agencies. In general, private, nongovernment affiliated institutions are best able to establish targeted objectives. Targeting often requires an institution to make some hard choices regarding the number and type of target groups, sectors, and products to promote. Private institutions are better able to make these choices than are governmental agencies. Moreover, private institutions, more than government agencies, can pay the salaries and incentives needed to hire technically qualified staff. And, as noted, a good staff increases the chances of having a good delivery mechanism.

Related to the effectiveness of the delivery mechanism is the effectiveness of A.I.D. management. An effective A.I.D. manager walks a tightrope between potentially competing objectives at the project design and implementation stages. At the design stage, the more successful projects establish realistic targets and objectives. These targets are sufficiently high to promote hard work and achieve cost-effectiveness without being overly ambitious. They also realistically acknowledge potential demand and supply constraints. The less successful projects tend to assume that emphasis on the marketing or production assistance needs of the firms is not that important.

The more successful projects benefit from a flexible A.I.D. manager. Flexibility is considered essential for adjusting targets, choosing opportunities (especially in the promoter approach), and maintaining close working relationship between A.I.D. and the delivery mechanisms. The importance of flexibility is clearly demonstrated in the CINDE-PIE, PROEXAG, and IPC projects. In each of these "success" projects A.I.D. supported a reformulation of project strategy during the first 2 years of project implementation. The less successful projects tend to suffer from overly ambitious targets and from A.I.D. reluctance to intervene and respond to project problems. This combination creates an "expectations gap" between A.I.D. management and the delivery mechanisms on what targets can be reached. If not corrected early on, this gap can be disastrous.

The potential for a crisis resulting from such a gap seems greatest in countries where the policy environment is most problematic and a facilitator approach has been adopted. For example, in the less successful projects in Honduras, Haiti, and Guatemala, A.I.D. tended to overload the projects with many objectives and resources -- all of which were designed to overcome major environmental constraints. These shotgun facilitator strategies are expensive and ineffective. They encourage spending and the establishment of herculean targets. After all, large expenditures mandate ambitious targets in order to be deemed cost-effective. Unfortunately, experience shows that with few

exceptions, such strategies do not normally result in successful projects.

A final contributor to the expectations gap is excessive use of foreign consultants. There is always the risk that expectations will surpass the skills of the foreign contractors and opportunities facing them. In the PDAP and ADAM projects, foreign contractors were criticized for learning how to promote as the project proceeded. A.I.D. needs to contract experts who are far along the learning curve, rather than at the beginning. Also, as discussed in Section 4.5, project scope, staff and contracted skills, and expected time for project impact will have to be properly matched.

4.5 Project Risk

At the heart of any discussion about project design is the question: How risky is the project? Reducing risk in a project means making many choices: Should a project work with large or small producers? What should be the product and market mix? -- New products or new markets? Existing products or existing markets?

The comparative analysis of 15 sample projects reveals that the more successful projects tend to follow low- to moderate-risk strategies. Projects classified as low risk have one of the following characteristics: (1) an established or proven strong demand for services at the time the project was developed; (2) services provided to already experienced target groups; (3) a tried and tested delivery mechanism, or (4) products or markets with prior exporting experience. The best example of a low-risk project was the IPC in the Dominican Republic, which supported an EPZ investment program that began in the 1970s.

The higher risk projects generally try to accomplish too much in too little time, with too many new products and new producer groups. In the HIAMP project in the Eastern Caribbean region, the emphasis on high impact did not always coincide with the assistance provided to target groups, many of whom were small producers from cooperatives that needed to link with larger producers. Similarly, the less successful FEPROEXAH project tried to promote small farmer development by introducing a variety of new crops. FEPROEXAH followed a high-risk strategy by starting farm trials, storage systems, transportation links, and marketing channels -- all at the same time.

A lower risk strategy does not necessarily result in lower returns. The more successful projects from the sample list -- ones that generated jobs, exports, or investments -- tend to follow low-to moderate-risk strategies. These projects strive to achieve success early on, regardless how small. Their maxim tends to be "success breeds success." Early success is important for generating host country support. Demonstrating success also helps to convince potential investors of a project's effectiveness,

and to win allies among other members of the business community (particularly banks, accounting firms, and other service areas).

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(3) For more details see Keesing and Singer (1989).

5. CONCLUSIONS AND FUTURE CONSIDERATIONS

At the outset of this study the question is posed: "Can A.I.D. trade and investment promotion projects be effective in constrained environments?"

The answer is yes, A.I.D. promotion projects can make a difference, particularly in countries with underlying strong export and investment growth trends and somewhat favorable policy environments.{4} In countries with less favorable policy and productive structure environments, the answer is a more qualified "Yes." In these countries, success can be achieved provided that project services and expected impact are more limited and tightly defined.

The better trade and investment projects are successful at targeting a critical mass or package of services that promote clearly identified comparative advantages of a country. Successful projects adjust to the strengths and weaknesses of the economic environment, target group, and host country governments and are better able to overcome unfavorable environmental constraints. Less successful projects try to proceed without regard for such factors. Projects that are most effective at targeting and adjusting are better able to overcome unfavorable environmental constraints.

The promoter approach is best suited for the weak productive structures and volatile policy environments in which A.I.D. operates. Two projects, CINDE-PIE and PROEXAG, had a strong promoter orientation. Both were well targeted, proactive, and emphasized the selection of and assistance to a few firms, sectors, and products. Both are now being used as models for trade and investment promotion elsewhere in the region.

5.1 General Conclusions

The promoter approach is the most likely of all to realize the three critical factors of success identified in this analysis:

- -- Keeping the project scope relatively simple
- -- Demonstrating success early on
- -- Making the project flexible enough to enable it to adapt to later changes in both

strategy and target group selection

The promoter approach advocates a high degree of targeting, which is considered essential to project success in both favorable and unfavorable economic environments. Targeting keeps the scope of a project relatively simple. Targeting also helps to establish clear objectives and tightly defined operational guidelines. Too often A.I.D. overloads a project with objectives, thereby making the project difficult to manage. Targeting makes a project more manageable, particularly during the start-up stage of a project.

The promoter approach also focuses on demonstrating early success by providing whatever assistance is needed to make exports happen. In trade and investment promotion projects, success builds on success by increasing institutional confidence, market responsiveness, and concrete gains. Many A.I.D. projects, particularly those that use a facilitator or transmitter approach, focus on project output accomplishments or processes. The promoter approach focuses more on bottom-line impact results (e.g., increase in jobs, investments, and exports). This emphasis supports the following major findings from the comparative analysis of 15 sample projects:

-- Most of the target groups, particularly the smaller inexperienced groups, require both marketing and production assistance. The promoter approach normally errs on the side of providing too much assistance rather than too little -- which is to be preferred.

-- Host country support, or at least nonhostility, is important for success. Demonstrating success early in a project increases the likelihood of generating host country support for a project.

-- The more successful projects follow low- to moderate-risk strategies. The promoter approach focuses on achieving small successes in targeted areas. Such an approach weights the project portfolio toward "winners" and growth objectives. It does not try to work with too many new target groups, products, and delivery mechanisms at the same time.

The final advantage of the promoter approach is that it can encourage flexibility. Flexibility promotes both effective delivery mechanisms and effective A.I.D. management -- two variables found to be crucial for project success. Flexibility includes the ability of A.I.D. and local counterpart managers to change the objectives, scope of services, and level of funding of a project. Equally important, it requires that A.I.D. managers and implementing institutions demonstrate a willingness to adjust their expectations of project impact. The promoter approach analyzes and monitors the pulse of market forces. As market opportunities change, so too do the objectives and market and product scope. This market-response emphasis of the promoter approach encourages flexibility.

5.2 Issues Associated With the Promoter Approach

The use of a promoter approach can involve some trade-offs. Attempts to target winners and to register early successes can make a project vulnerable to the criticism that it is playing the role of the private sector rather than a developmental role. The emphasis of the promoter approach on starting small and adding services may run into bureaucratic problems. Strict targeting at the project design stage may be sound operational wisdom, but it can create serious difficulties given the funding procedures of most development agencies, which push for more broad-based projects. The flexibility required by promoter projects may take too much time and energy to obtain approvals for each new expansion or adjustment in project targets. Finally, a targeted approach that emphasizes technical assistance can be expensive, and issues of cost-effectiveness and sustainability are always of concern in an A.I.D. project.

A definitive disposition of these matters lies well beyond the compass of this study. Still, the study provides some summary views on the issues discussed above in order to provide useful insights, provoke needed debate, and where appropriate encourage further research, analysis, and case studies.

5.2.1 Equity Versus Growth: Should A.I.D. Focus on Small or Large Producers?

At issue in any development project is the trade-off between equity and growth goals. Growth goals generally involve working with larger producers that are capable of generating significant investments and exports. Equity goals focus on providing assistance to smaller producers in an attempt to promote social reform and income distribution.

Typically, USAID Missions try to work with both small and large producers. This is considered a balanced portfolio strategy. But these two goals are not always compatible. The constraints and business opportunities differ for the two groups. Nontraditional exporting usually requires business acumen, good contacts and information, conformance to product standards, financial resources, and willingness to take risks. These requisites are normally not widely found among small producers.

It is unrealistic to expect a delivery mechanism, particularly a new one, to respond effectively to the constraints and opportunities presented by both equity and growth target groups. Projects that focus on equity goals can achieve success, but the required time frame and resources must be greater. Such a high-risk strategy, however, does not fit with one of the key characteristics of successful projects -- an ability to achieve a series of short-term, concrete successes. A.I.D. managers need to

acknowledge early on the potential mismatch that can exist between return on investment and risk as it relates to the target groups.

5.2.2 A.I.D.'s Approach To Building Project Flexibility

The analysis of A.I.D.'s trade and investment promoter projects showed that, generally, projects that had made significant changes in their design were successful, while those that made few or no design changes tended to be unsuccessful. The importance of flexibility is also supported by other reviews of A.I.D. trade and investment projects:

> Trade and investment activities require a sustained effort, and a great deal of flexibility because it is not possible to plan every detail of the activity to its conclusion. Often it is not feasible to gain host government approval for all aspects of the activity. And quick responses for new opportunities to intervene do not allow for A.I.D. project approval through the normal channel (Rudel and Ide 1987, 10).

A common way in which A.I.D. builds flexibility into a project is by designing a "Christmas tree" project that provides a multitude of services. Many facilitator-type projects attempt to gain flexibility by using a Christmas-tree approach. This approach applies a shotgun multiservice strategy in the hope of tackling every environmental constraint affecting trade and investment.

The main appeal and benefit of a facilitator project is that it provides A.I.D. staff with flexibility -- at least on paper. Multiservice and multiobjective projects capture significant resources that can be easily transferred during project implementation. A.I.D. officials indicate that in broad facilitator-type projects, project officers have the authority needed to manage a project flexibly and to point resources in fairly focused directions. However, there is also agreement that once a broad-based project is underway, the inertia that sets in makes it very difficult to set the priorities that trade and investment projects require.

In contrast, promoter-type projects may not capture as many resources as facilitator-type projects, particularly at the outset, because they emphasize early targeting. A project that starts small has trouble growing in the world of development administration, because it simply takes too much time and energy to obtain approval for each new expansion or adjustment.

Facilitator projects also provide some political flexibility. By providing a wide range of services to any and all target groups, the project has the appearance of serving broader equity objectives as well as narrower growth objectives. Project designers do not have to make any early hard choices concerning the target group -- choices that may be politically unacceptable.

The Christmas-tree approach to project design may indeed represent a practical way to capture sufficient resources to ensure growth for a promising project. But experience shows that too often projects that take this approach fail because they are unable to establish priorities. Too often resources are dissipated on too many ventures.

A Christmas-tree project needs to be transformed into a targeted promoter project as quickly as possible. Many private sector implementing organizations proceed carefully at the start of a project as a matter of instinct or of deliberate practice. However, if that is not the case, an early evaluation or other USAID Mission-initiated precursor to reducing project scope and concentrating resources may be in order.

5.2.3 Cost-Effectiveness and Sustainability

Promoter-type projects imply high costs. Establishing offices overseas can be expensive. Furthermore, providing technical assistance for both the production and marketing needs of a targeted group of producers requires significant input from foreign consultants but foreign consultants are more expensive than local staff. Technical assistance from local staff are generally used in facilitator-type projects that provide general export and investment promotion services. These high costs beg the question: "How cost-effective and sustainable can trade and investment projects be?"

The analysis in this study indicates that the promoter approach is more likely to provide a greater return on the investment than the facilitator approach. Two successful projects that emphasize promoter-type functions showed the highest cost-effectiveness in terms of investment generated per program cost and cost per job generated (see Section 3). Moreover, in terms of overall expenditures, three of the four most expensive projects from the sample list are facilitator projects that achieved only mixed results.

Less clear is the issue of sustainability of promoter-type projects -- or of any trade and investment project. The concept of sustainability means that projects should, within a reasonable amount of time, become financially self-sufficient, or at least be able to support themselves from a combination of revenue generation and contributions from non-A.I.D. government, private, and international sources. The conventional doctrine of sustainability says that A.I.D. should design and implement each project so that within 5 to 10 years it is able to kiss its implementing institution goodbye and leave something enduring in place.{5}

Real progress on sustainability requires, first of all, a tough-minded and realistic assessment of the potential for financial self-sufficiency, that is, a situation in which the revenues derived from services cover the costs of those services. Evidence

clearly indicates that investment promotion activities cannot support an investment promotion agency without some form of public or private sector grant support. Limited experience also indicates that export-promotion activities are not financially sustainable. Although export-promotion activities (e.g., marketing- and production-research services) can more easily be put on a fee basis than can investment promotion services, official export promotion agencies still require some form of subsidy or grant financing.

If approached realistically the problem of sustaining promotional services in the constrained environments of developing countries can be resolved. The ingredients of a solution, in view of the evaluation team, include the following:

-- Do not assume that A.I.D. or other government-supported institutions are essential to continuing export promotion. Private sector services should at some point replace or compete with public sector-financed agencies.

-- Recognize that A.I.D. procedures and regulations create significant costs for implementing organizations. Outsiders can reduce these costs but not eliminate them as long as A.I.D. assistance continues.

-- Use the dynamics of the promoter approach to reduce costs and increase cost-effectiveness.

-- Make timely choices from among the available practical alternatives concerning organizations' financial destinies and functions. Such choices include government funding of selected promotional functions, business contributions, endowment funds, and incentive arrangements (such as finders fees).

In summary, emphasis on the promoter approach appears best suited to the constrained productive structure and volatile policy environments in which A.I.D. operates. This approach incorporates the market responsiveness, flexibility, targeting, and goal (not process) orientation that trade and investment projects require. Facilitator- and transmitter-type functions have their time and place, but not to the extent of their current dominance in A.I.D.'s project portfolio.

This change in approach needs to be supported by an A.I.D. commitment to short-term promotion successes built on targeted project strategies. A.I.D. needs to reach a consensus with the other players in its trade and investment projects -- private sector target groups, the host country government, and implementing agencies. All share the challenges of how to make public sector decisions at an entrepreneurial pace, how to adjust entrepreneurial styles to development agency requirements, how to quickly eliminate unproductive activities, how to move resources to more productive, how to take necessary risks and avoid unnecessary risk, and how to allocate resources among those competing for them.

Responding to these challenges in an environment that requires the integration of forces driving each of the players is not easy for anyone. But, from what the evaluation team has learned of the trade and investment projects within the Bureau for Latin America and the Caribbean and elsewhere, it is convinced that creative solutions are possible and worth pursuing.

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(4) This study focuses mostly on countries with less favorable policy and productive structure environments. Within this sample group, relative rankings of "favorable," "indifferent," and "unfavorable" were used to describe the environment of each country. In this context, a favorable country, like Costa Rica, might still be considered less favorable when viewed against the Koreas, Taiwans, and Hong Kongs of the world.

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(5) A less conventional definition maintains that sustainability is achieved through structural changes that promote sustained economic growth. This definition emphasizes the sustainability of "export growth" instead of the sustainability of the institution. The trade promotion office may not be necessary, for example, if a plethora of private companies step in to provide export promotion services.

APPENDIX A

ANALYTICAL CRITERIA

1. INTRODUCTION

This report analyzed seven criteria thought to be important determinants of the success of trade and investment promotion projects: (1) the productive structure, (2) the policy environment, (3) the target group export capability, (4) the host country support for a project, (5) the delivery mechanism, (6) A.I.D. management, and (7) project risk. For each variable, one or more appropriate proxy indicators were chosen. In all cases, the variables were simply ranked on a scale of low to high. A value of 1 (low) means that for a given project, the economic and institutional settings were unfavorable to the project. a value of 3 (high) means they were quite favorable.

Table A-1 shows the rankings for each project for all the criteria, with the exception of project risk. The actual indicators, data, and definition of criteria used to evaluate all of the variables are described in detail in Section 2.

2. DEFINITION OF CRITERIA USED FOR ECONOMIC AND INSTITUTIONAL ANALYSIS

2.1 The Productive Structure

To assess the level of development of the productive structure in the sample countries, two sets of indicators were selected. The first set measures the degree to which the trade sector in each country is developed, particularly for nontraditional exports (see Table A-2). The second set measures each country's potential for rapidly increasing exports, especially with the assistance of a project intervention (see Table A-3).

The data in Table A-2 were taken at the time of project design to better correlate project success with the export environment. The criteria used are as follows:

- -- Total exports as percentage of gross domestic products (GDP) (Source, World Bank).
- -- Nontraditional exports as percentage of GDP (source, Economic Commission for Latin America and the Caribbean (ECLAC), Annual Bulletins).
- -- Growth of nontraditional exports during the 3 years prior to project implementation (source, ECLAC).
- -- Foreign investment as percentage of GDP (source, World Bank).

The indicators in Table A-3 were selected to characterize the productive environment in which new investment or new export activity must operate. They are as follows:

- -- Level of infrastructure development, measured as the percentage share of the basic services (transport/communications) sector in GDP (source, World Bank).
- -- Manufacturing wages (sources, national investment promotion offices and industrial trade organizations).
- -- Management potential, measured by the post-secondary enrollment as percentage of total population (source, World Bank).
- -- Public sector intervention in the productive sectors (energy, agriculture, industry, and transport/communications), measured by the product of two numbers: the percentage of government expenditure for economic services (i.e., interventions in the productive economic sectors), and the total government expenditure as a percentage of gross national product (GNP). Multiplied, these indicators give a macro perspective (source, World Bank).
- -- Credit availability, measured by gross domestic investment. This indicator does not distinguish between public and

private investment (source, World Bank).

2.2 The Policy Environment

Indicators used to assess the policy environment are listed below and in Table A-4. Most of the data are drawn from the year the project began to be most representative of the environment in which the project was designed. However, country risk shows the change in investor risk over the project lifetime.

-- Liberalized exchange rate (sources, USAID Mission and World Bank assessments).

-- Pricing policies, measured as free market orientation versus regulation (sources, A.I.D. and World Bank assessments).

-- Liberalized trade regime (sources, A.I.D. and World Bank assessments).

-- Overall country risk, measured as the financial soundness of the country, its ability to repay debt, and the stability of the currency and investment climate (source, Institutional Investor).

-- Political Stability (source, consultant assessment).

Table A-4 shows that most of the sample countries had an unfavorable policy environment at the time of project implementation, primarily in the trade policy regime. Greater progress was made in the 1980s in exchange rate policies than in either trade or pricing policies, with the exception of Bolivia, which progressed dramatically in all three areas. Haiti after the fall of President Duvalier liberalized its trade regime extensively, but has, together with Honduras, the most over-valued currency in the country sample. Of course, progress in one policy area does not imply progress in any other.

2.3 Target Group Export Potential

The target group export potential is classified according to the following categories, based on general statements provided in project evaluation:

-- Low. A low-ranked target group consisted primarily of small domestic producers with no experience in exporting or collaborating with foreign investors.

-- Medium. A medium-ranked target group was small to medium producers with some experience with export markets (export promotion projects) or foreign investment (investment promotion projects).

-- High. A high-ranked target group included larger producers or investors with significant domestic market share or some

previous experience with overseas markets.

In the sample project list, most of the target groups ranked relatively low in terms of export capability and orientation.

2.4 Host Country Support

Most project papers assume significant host country support by way of financing, staffing, or general political support. Based on project evaluations, our analysis proposed three categories:

-- Low. A low ranking means either that host country support was severely lacking or government actions tended to be obstructive.

-- Medium. A medium ranking means host country actions had an inconsequential effect on the project.

-- High. A high ranking means host country actions followed original project design requirements and were positive.

2.5 Delivery Mechanism

Our assessment of the effectiveness of project delivery mechanisms were based on project documentation and interviews with project participants and observers, based on the following factors:

-- Congruency and clarity of objectives

-- Appropriate phasing and level of funding

-- Capabilities and motivation of local and foreign contractor staff

-- Cooperation from other agencies and institutions involved in export or investment promotion in the country

Generally, the more successful projects ranked high in at least three out of the four factors. Particularly important was the capability of the staff. Weaker projects received medium rankings if two out of the four factors were ranked low, or low rankings if three out of the four factors were ranked low.

2.6 A.I.D. Management

Evaluation data do not permit a detailed analysis of A.I.D.'s role in each project. In many projects inferences had to be substituted for direct statements. There were two main areas in which A.I.D. management effectiveness could be judged:

1. Project design: Were the established objectives and

targets realistic? Was the demand and constraint analysis realistic?

2. Management responsiveness: Did A.I.D. officers respond effectively to implementation problems? Did A.I.D. define a proper balance between micromanaging and providing needed strategic input?

In evaluating this criteria, A.I.D. management effectiveness was group into three categories:

-- Low. If A.I.D. management severely overestimated demand and project targets or did not respond effectively to relieve constraints and obstacles during project implementation, its effectiveness was ranked as low.

-- Medium. A.I.D. management that was neither a positive nor negative factor during the project implementation, was ranked medium in effectiveness.

-- High. A.I.D. management that demonstrated flexibility, openness, and a desire to respond to project problems through redesign or adjustment of targets was ranked high.

2.7 Project Risk

The criteria used for ranking project risk included (1) the extent to which the project tried to provide new services for which there was no previously demonstrated demand, (2) the extent to which the project focused on small or new producers, (3) the extent to which the project tried to establish high impact in a short period of time (i.e., 1 to 3 years), (4) the extent to which the project tried to work with new and inexperienced delivery mechanisms or, (5) the extent to which the project sought to develop new products.

Projects classified as high risk generally ranked high on four or more of the above criteria. Projects classified as medium risk generally ranked high in three of the criteria. Projects in the low risk category ranked high in two or less criteria.

APPENDIX C

TABLES AND GRAPHS USED FOR ASSESSING PROJECT SUCCESS

This appendix presents the data and graphs used to define project success. Section 1 presents the indicators used to determine project success. Section 2 presents the graphs used to show the correlation between project success (as defined in Section 3 of the main text) and the economic and institutional criteria (presented in Section 4 of the main text).

1. Project Performance Indicators

Most of the projects from the sample list enjoyed some level of success. Some projects contributed to significant development impact in terms of jobs and foreign exchange generated and new investments. Other projects provided efficient services and achieved many of the output indicators listed in the Project Paper Logframe. Less quantifiable indicators of success associated with each project are the level of host country support and overall assessment of a project's effectiveness as defined in the project evaluations. The sample projects were grouped into three categories, using the quantifiable and qualifiable indicators mentioned above (1) Success, (2) Mixed Results, and (3) Low Results. Table C-1 summarizes these indicators.

Another measure of project success is the cost-effectiveness of project services. The analysis presented in this paper focuses on bottom-line or impact cost-effectiveness indicators, which include jobs, foreign exchange, and investment generated for each program dollar expended. These indicator are presented in Table C-2 for all the sample projects.

The results from Tables C-1 and C-2 seem to show a positive correlation between project success and cost-effectiveness. Three out of the four success projects -- PROEXAG, CINDE-PIE, and IPC -- have the highest impact indicators per program dollar expended (or lowest in the case of cost per job generated) of the sample project list.

However, this correlation does not prove that the less successful projects are definitely not cost-effective. Because of problems of impact attribution, export and investment gestation periods, and the slow process of institution building, all project impacts for the less successful projects may not be included. It is possible that the cost-effectiveness of the mixed-result projects can improve over time and with better information. Furthermore, as mentioned in Section 3 of the main text, imperfect project monitoring also makes it difficult to make accurate assessments of a project's cost-effectiveness and overall level of success.

2. CORRELATING PROJECT SUCCESSS

This section presents graphs showing a correlation between project success and the economic and institutional variables presented in Appendix A and Section 4 of the main text. The statistical method used to correlate the seven variables with project success is the Spearman's rank correlation coefficient, which compares each ranking independently with project success.

For the purpose of this analysis, the seven variables are grouped into four categories: (1) Uncontrollable Variables, productive structure and policy environment; (2) Influenceable Variables, target group export capability and host country support; (3) Controllable Variables, delivery mechanism and A.I.D. management

effectiveness; (4) Project Risk, summary assessment of the likelihood that project objectives can be accomplished within the target timeframe and budget. For each group, the correlation analysis used the average numerical ranking of the two variables included in the group. For example, if the productive structure variable received a ranking of "low" or a "l" and the policy environment variable received a ranking of "high" or "3," then the average ranking for the "Uncontrollable Variable" was "2."

Figures C-1 to C-4 present the graphic correlation between project success and the economic/institutional variables. The highest correlation occurs with the controllable variables (see Figure C-3). Our analysis showed that an effective delivery mechanism is essential to project success. The influenceable variables also show significant correlation as indicated by the clustering of projects around the 45-degree line.

Less significant is the correlation associated with the uncontrollable variables and project risk. A major finding in the paper was that a favorable policy environment does not necessarily create project success, particularly if favorable suppport from the other variables is lacking. As shown in Figure C-1, the projects in the upper left enjoyed a positive environment but were still relative failures. Finally, Figure C-4 points out that the correlation between project risk and project success is negligible. However, a comparison between the success and mixed results projects reveals a stronger correlation. The success projects tended to follow moderate to low risk strategies, while the mixed results projects tended to follow more moderate- to high-risk strategies.

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